

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
501(c)(3) REVENUE BOND FINANCING PROGRAM**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	SRI International (SRI or Borrower)	<b>Amount Requested:</b>	Not to exceed \$15,000,000
<b>Applicant Description:</b>	SRI is a nonprofit corporation providing research, technology development and consulting services.	<b>Date of Board Meeting:</b>	February 23, 2010
		<b>Type of Issue:</b>	New Issue
		<b>Resolution Number:</b>	10-04
<b>Project Site:</b>	333 Ravenswood Avenue, Menlo Park 94025	<b>Prepared by:</b> Tara Dunn	
<b>Project Description:</b>	The project (Project) involves the financing or refinancing of all or a portion of the costs of: modernization upgrades and improvements to existing laboratory facilities in Buildings P and T; seismic retrofit of Building E; and, acquisition and installation of site chiller equipment and related infrastructure.		
<b>Uses of Bond Proceeds:</b>	Bond proceeds will be used to pay the costs of the Project.		
<b>Public Benefits:</b>	The Project will enable the Borrower to ensure the safety of its workforce, maintain state of the art environments to conduct its research activities and help foster job growth and business expansion, both directly and indirectly, through its ability to capitalize the intellectual property developed through such research.		
<b>Financing Structure:</b>			
<b>Type of Issue:</b>	Publicly-offered bonds, initially issued as variable-rate demand bonds in minimum denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof, subsequently convertible to term bonds in denominations of \$5,000 or any integral multiple thereof.		
<b>Tax Status:</b>	Tax-exempt 501(c)(3) bonds.		
<b>Term:</b>	Not to exceed 25 years.		
<b>Credit Enhancement:</b>	Initially, a direct-pay letter of credit from Wells Fargo Bank, subject to annual reinstatement unless a comparable substitute credit facility is provided or bonds are converted to bear a term rate of interest with ratings no lower than “A3” (Moody’s) or “A-” (S&P or Fitch).		
<b>Credit Rating:</b>	Expected “A+/P1” by Standard & Poor’s Rating Agency and “Aa2/VMIG1” by Moody’s based upon Wells Fargo Bank’s credit rating.		
<b>Est. Sources of Funds:</b>		<b>Est. Uses of Funds:</b>	
Par amount of the bonds	\$15,000,000	Project Costs	\$15,740,000
Equity contribution	1,040,000	Cost of Issuance	300,000
<b>TOTAL SOURCES</b>	<b>\$16,040,000</b>	<b>TOTAL USES</b>	<b>\$16,040,000</b>
<b>Financing Team:</b>			
<b>Bond and Disclosure Counsel:</b>	Orrick, Herrington & Sutcliffe LLP		
<b>Underwriter:</b>	Prager, Sealy & Co, LLC		
<b>Trustee:</b>	Union Bank, NA		
<b>Staff Recommendation:</b>			
Staff recommends approval of Resolution 10-04 for an amount not to exceed \$15,000,000 for SRI International.			

## BACKGROUND AND HISTORY

SRI International (SRI) was originally founded in 1946 as the Stanford Research Institute for the purpose of discovery and application of science and technology for knowledge, commerce, and prosperity. SRI conducts client-supported research and development for government agencies, commercial businesses and other nonprofit entities. Focus areas include:

- information, communications and engineering technologies;
- pharmaceuticals and biotechnology;
- chemistry and physics; and,
- the public policy areas of education, health and economic development.

SRI operates under funding received through research and development contracts, royalties received from licensing, and revenues generated as a result of spin-off ventures. Approximately 90% of SRI's funding is from federal government contracts with the remaining received from commercial clients. Under the Bayh-Dole Act enacted in 1980, also known as The Patent and Trademark Law Amendments Act, SRI may retain intellectual property control of its inventions and other intellectual property that resulted from federal funding, under certain provisions including retaining a nontransferable, irrevocable, paid-up license for any Federal agency to practice the invention or have the invention practiced throughout the world by or on behalf of the Government of the United States. As a result, SRI has more than 1,000 patents and patent applications worldwide and has launched more than 40 ventures with a total market capitalization that exceeds \$10 billion.

SRI's main campus consists of approximately 63 acres located in Menlo Park (Menlo Park Campus) including roughly 750,000 square feet of research laboratories and offices for technical staff, and 500,000 square feet of administrative office space, storage, campus utilities and maintenance, and facilities for employees. SRI also leases facilities throughout the United States as well as Tokyo, Japan, and employs approximately 1,900 employees worldwide, with 1,400 employees located at the Menlo Park Campus. Approximately 67% of SRI's employees are involved in research-related activities.

SRI's current officers and Board of Directors are listed in Appendix A.

### Previous Bonds

In 2003, I-Bank issued two series of bonds totaling \$25,000,000 (2003 Bonds) on behalf of SRI to renovate and upgrade its Microelectronics Fabrication Facility (Building S), and to expand its Pharmaceutical Development Facility (Building T) at the Menlo Park Campus (Previous Project). The Previous Project was completed in 2006. Currently, \$21,440,000 of the 2003 Bonds remains outstanding.

## PROJECT DESCRIPTION

SRI requests the I-Bank to issue bonds to fund all or a portion of the costs of construction and improvements to three of SRI's existing facilities and for the acquisition and installation of site chiller equipment and related infrastructure (Project) all of which is

located at the Menlo Park Campus ( See Appendix B - SITE MAP AND AERIAL VIEW OF MENLO PARK CAMPUS).

Building E is approximately 172,000 square feet and houses SRI's Information Computing Sciences Division and Engineering Sciences Division. The improvements to Building E consist of seismically retrofitting the building to ensure the safety of its workforce. Following the Loma Prieta earthquake in 1989, Building E sustained some damage and was repaired, however a recent computer simulation indicated improvements should be made. Work on Building E began in September 2009 and is expected to be complete in April 2010.

Building P is approximately 178,400 square feet and houses SRI's Physical Sciences Division and a portion of its Biosciences Division. The activities of the Biosciences Division in this building include research for private and governmental clients in areas such as cancer, infectious diseases, drug addiction and inflammatory diseases. As a result of these activities, Building P must be maintained as "state of the art" due to the chemicals and special materials utilized in its laboratories. The improvements to Building P include the installation of new fire management systems for safety and to upgrade and modernize the existing laboratories to meet client research project requirements. Work on Building P is expected to be complete within three years.

Building T is approximately 53,000 square feet and is utilized by the Biosciences Division primarily in the areas of anti-infective therapeutics and vaccines, cancer therapeutics, and brain imaging agents. As previously mentioned, proceeds from the 2003 Bonds were used to expand Building T. Now, SRI intends to use proceeds of the Bonds to replace the air handling system of the original building which has currently exceeded its useful life. Work on Building T is expected to be complete by December 2010.

As part of its overall campus renewal plans, SRI also intends to install a new site chiller next to its existing cogeneration facility and construct related infrastructure for heating and cooling the buildings on campus. The work is expected to be complete by September 2010.

## **FINANCING STRUCTURE**

SRI International is requesting approval for the issuance of bonds (Bonds) in an amount not to exceed \$15,000,000. Payment of principal and interest on the Bonds will be initially enhanced by a letter of credit provided by Wells Fargo Bank to be executed simultaneously with the issuance of the Bonds. It is expected that the Bonds will carry a rating of "A+/P1" by Standard & Poor's Rating Agency and "Aa2/VMIG1" by Moody's based upon Wells Fargo Bank's credit rating. The Wells Fargo Bank letter of credit is subject to annual reinstatement unless a comparable substitute credit facility is provided by SRI, or the Bonds are converted to bear a term rate of interest, which is permissible only if the Bonds are rated no lower than "A3" (Moody's) or "A-" (S&P or Fitch).

In no event shall the Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Bonds except for the I-Bank. The Bonds constitute

a special obligation of the I-Bank, payable solely from revenues consisting of repayments of the loan provided for in a loan agreement between the I-Bank and SRI.

## **PUBLIC BENEFITS**

With the completion of the seismic retrofit of Building E and the installation of new fire management systems in Building P, SRI will be able to ensure the safety of its workforce housed in those facilities and satisfy certain regulatory requirements of the City of Menlo Park. In addition, the upgrades and improvements to Buildings P and T will allow SRI to maintain its state of the art facilities utilized in laboratory research activities under contract with governmental and private clients. As such, the Project will also help SRI maintain and expand its ability to engage in research activities. Currently, SRI estimates that the activities undertaken within the facilities under the Project currently amount to over \$210 million in contracts. Through SRI's ability to retain intellectual property control and capitalize on it, the Project will also help stimulate job growth and business development both directly and indirectly in California and elsewhere.

## OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> <b>NO</b> <input checked="" type="checkbox"/> <b>YES, Describe:</b> Building permits are required and have been obtained for the seismic retrofit and will be obtained for all Bond funded construction.
TEFRA	
Date of TEFRA	February 18, 2010
Publications	<i>The Sacramento Bee</i> <i>San Mateo Times</i>
Oral/Written Comments Received	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Explain:</b>
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> <b>NO</b> <input checked="" type="checkbox"/> <b>YES</b>
Issues?	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Explain:</b>
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b>	<ol style="list-style-type: none"> <li>1. The Project is in the State of California.</li> <li>2. SRI is capable of meeting its obligations incurred under the proposed loan agreement, and, in particular as to its loan repayment obligations which secure the Bonds, as a result of SRI's ability to satisfy the requirements imposed by Wells Fargo Bank, as the provider of the initial letter of credit, which is the basis for the anticipated rating on the Bonds.</li> <li>3. Payments to be made by SRI to the I-Bank under the proposed loan agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the Bonds.</li> <li>4. The proposed financing is appropriate for the Project.</li> <li>5. SRI has represented that the Project is consistent with any existing local or regional comprehensive plans.</li> </ol>
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b>	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES</b> Certificate No.: <input checked="" type="checkbox"/> <b>N/A</b> Date:

## RECOMMENDATION

Staff recommends approval of Resolution 10-04 for an amount not to exceed \$15,000,000 for SRI International.

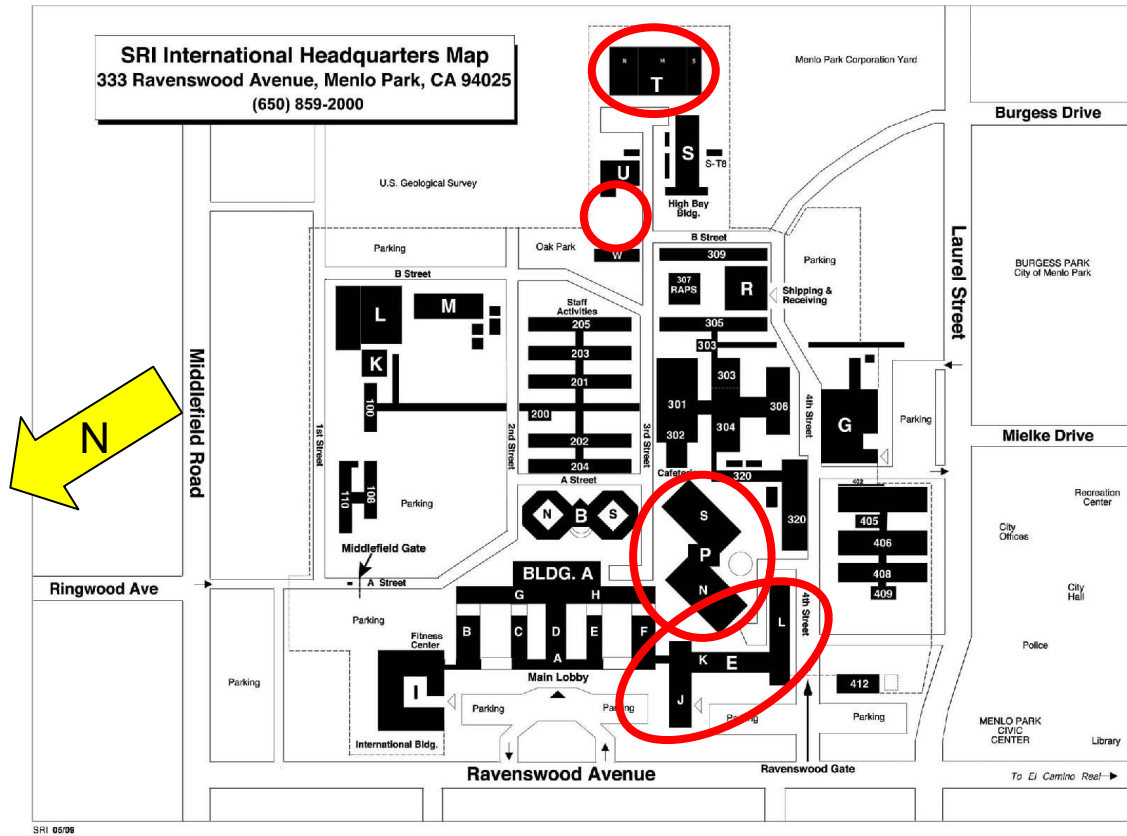
## APPENDIX A – GOVERNANCE AND MANAGEMENT

<b>EXECUTIVE MANAGEMENT</b>	
Curtis R. Carlson	President and Chief Executive Officer
Thomas J. Furst	Senior Vice President and Chief Financial Officer
Richard Abramson	Vice President, Legal and Business Affairs and General Counsel and Secretary
Byron P. Rovegno	Treasurer
Dennis Beatrice	Vice President, Policy Division
Stephen Ciesinski	Vice President, Strategic Business Development
Jerry Harrison	Vice President, Government Business Development
William Mark	Vice President, Information Computing Sciences Division
Walter H. Moos	Vice President, Biosciences Division
Eric Pearson	Vice President, Physical Sciences Division
John W. Prausa	Vice President, Engineering and Systems Division
Alice R. Resnick	Vice President, Corporate and Marketing Communications
Jean E. Took	Vice President, Human Resources
Norman Winarsky	Vice President, Ventures, Licensing and Strategic Programs

<b>BOARD OF DIRECTORS</b>	
Samuel H. Armacost	Chairman
Richard B. Brewer	Member
Mariann Byerwalter	Member
Curtis R. Carlson	Member
Vernon E. Clark	Member
Charles A. Holloway	Member
Leslie Kenne	Member
Henry Kressel	Member
Phillip J. Quigley	Member
John J. Young, Jr.	Member



## APPENDIX B – SITE MAP AND AERIAL VIEW OF MENLO PARK CAMPUS



SRI International - Buildings E, P and T and where the chiller will be located.

